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Cotton and Products

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Report Highlights:

Argentine cotton exports for marketing year (MY)2005 are projected to increase to 35,000 metric tons (MT), the highest since MY2001, but still significantly low compared to exports in the 1990s. Imports are forecast at 20,000 MT, almost all from Brazil. Although there is a lot of uncertainty about MY2005 acreage, harvested area is expected to total 360,000 hectares (has), somewhat lower than MY2004.

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SECTION I. SITUATION AND OUTLOOK

Argentine cotton exports for marketing year (MY) 2005 are projected at 35,000 metric tons (MT), the highest in the past four years. This is a result of two consecutive years in which production will more than offset domestic consumption. Therefore, there will be a small but increasing surplus volume for exports.

The main markets for Argentine cotton are expected to be Chile, Brazil and Far East countries. A large Brazilian-owned textile company, which has manufacturing plants in three Latin American countries, is responsible for most of the exports to Chile and Brazil.

Cotton exports are expected to be of good quality, ranging between Strict Low Middling (SLM) and Low Middling (LM). Responding to world market future prices, most local traders expect some improvement in cotton prices in the second semester of 2005. Argentine cotton export prices are very competitive as result of small export surplus volumes and some problems with contamination with extraneous material (mainly polypropylene and jute).

Cotton imports in MY2005 are forecast down at 20,000 tons. With two crops in a row with larger output, this level of imports would seem too high, but some local textile companies are now very fond of Brazilian cotton as it has many good characteristics. Currently, similar cotton from Brazil costs over 20 percent more than local product. Until 2003, Paraguay was also a good source for cotton, but nowadays almost all imported cotton is purchased in Brazil. Local merchants indicate that Paraguayan cotton has problems with contamination.

Traders indicate that cotton imports from the United States face strong competition from Brazil, which have many advantages. Some of these are: generally lower price, duty free as member of Mercosur (imports from non-Mercosur countries pay 6 percent), cheaper, faster, and more flexible transportation, very uniform quality, and the availability of large volumes. Local importers pay for their purchases in advance, not needing credit terms, which could be an advantage to U.S. cotton. Some merchants state that the U.S. could only be competitive if it would have lower prices than Brazilian cotton. Brazilian cotton exporters are somewhat active in promoting their product and some Argentine spinners are invited to see first hand their production.

Cotton planted area for MY2005 is projected at 370,000 hectares, down from last year. Lint production is also forecast down at 145,000 tons. The MY2004 crop has not finished yet (harvest will end by June 2005) and there is a wide range of estimations for the coming crop. Some sources believe that the area will total 450,000 hectares, while pessimists estimate no more than 320,000 hectares. There are several factors which create a lot of uncertainty and which will impact directly on farmers' planting decision. One of the most important are world prices (if they will continue a recovery trend), and if it will rain in the next couple of months for farmers to plant sunflower, especially in Chaco, where there is a lot of enthusiasm. If it does not rain sufficiently to sow sunflower (last year in Chaco province only half of the projected area was finally planted on account of dryness), most of that acreage will be diverted to cotton or soybeans. However, this autumn has been much wetter than last years, and some sources indicate that soil humidity for sunflower is so far excellent.

Argentina's cotton production capacity is well under-used. In MY1997, planted area was over 1.1 million hectares, two and a half times bigger than the projected acreage for MY2005. This means that the availability of machinery and equipment at the farm level as well as gin capacity is prepared for a much larger output. Due to this reason, there has been very little investment in the production aspect, except for the development of new seed varieties, especially associated with genetically modified organism (GMO). There has been significant investment in local textile mills, as domestic demand has increased significantly after the

devaluation in 2002, which limited the entry of inexpensive textile imports from Brazil and Asian countries. Spinners' larger capacity (they are currently working practically at full capacity) will somewhat increase the domestic demand for cotton, which in MY2005 is expected to total 135,000 tons, the largest of the past several years.

Argentine cotton prices are currently lower than world prices due to two main factors: small available volumes and contamination. A couple of provinces implemented in MY2004 a system by which they buy cotton from small and medium farmers paying higher prices than what private ginneries pay. With this, they set a reference price in the market. As an example, in March 2005, while the private ginneries paid US\$ 224 per ton of raw cotton (SLM), Formosa province paid 14 percent more for the same product. The cotton is received and processed in several cooperatives and most of it will be exported. So far this system has proved successful and it is expected to be repeated in the coming crop.

The exchange rate is currently at 2.9 pesos to a dollar. Before December 2001 the peso was tied to the dollar at a 1 to 1 conversion for more than a decade. This situation negatively affected the local textile industry as it turned it uncompetitive and encouraged huge inexpensive imports of fabric and finished products. In early 2002, the strong devaluation brought great relief to several sectors, including the cotton industry. The impact on the textile sector was two fold: increased profitability at the farm level and a significant limitation of textile imports. As a result, the domestic demand of cotton fiber grew more than 60 percent. The government is currently in a difficult position, as it wants to maintain a high exchange rate to favor local exports. However, to be able to do this it has to purchase a lot of pesos in the market and risk growing inflation, which has an unpopular impact on society. Nonetheless, local economists project an exchange rate of about 3 pesos for MY2005.

The Federal Government does not have a specific policy directed to the cotton sector. On the contrary, all agricultural products and oil exports are taxed. In the case of cotton production, which is considered by most people as a "social" crop because there are about 27,000 very small producers (with less than 10 hectares) and 3,500 small producers (with up to 50 hectares), the export tax is 5 percent. Every now and then there are rumors that the government will get rid of it, but so far they have not been moved since its implementation in early 2002. Provincial governments usually assist their small producers in one way or another. The most common way is by giving away seeds, some fuel, and in some cases some cash, usually as credits, which producers have to give back at harvest. Sometimes collection is difficult. A new tool to assist small and medium producers is the one explained earlier, which sets referential prices, with the goal of keeping domestic prices the highest possible.

SECTION II. STATISTICAL TABLES

PSD Table

Country Commodity	Argentina Cotton					
	(HECTARES)(MT)					
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Estimate [DA Official [Estimate [DA Official [Estimate [
Market Year Begin	08/2003			08/2004		08/2005
Area Planted	0	264000	0	404000	0	370000
Area Harvested	250000	250000	390000	370000	0	360000
Beginning Stocks	83389	16849	112565	55649	156328	85649
Production	112129	120000	163295	150000	0	145000
Imports	44852	45000	27216	25000	0	20000
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	240370	181849	303076	230649	156328	250649
Exports	6096	6200	14152	15000	0	35000
USE Dom. Consumption	119750	118000	130636	128000	0	133000
Loss Dom. Consumption	1960	2000	1960	2000	0	2000
TOTAL Dom. Consumptic	121710	120000	132596	130000	0	135000
Ending Stocks	112565	55649	156328	85649	0	80649
TOTAL DISTRIBUTION	240371	181849	303076	230649	0	250649

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING**Production**

Planted area for MY2005 is forecast at 370,000 hectares, a drop from last year. Harvested area will be somewhat lower as every year there is a "loss" as a result of weather problems. There is a wide spread of projections for next year as some contacts believe that planted area will increase while others, more pessimistic, think it will be significantly smaller. Those who believe acreage will grow indicate that world cotton prices are expected to be higher in the last part of the year and that large growers are using advanced technology, which allows them to make good profits, and thus, will expand area. They state that planting of other alternatives during winter usually has severe difficulties due to the lack of soil moisture. In addition, they indicate that spinners, and some gins, are encouraging the sowing of cotton in order to maintain a decent domestic supply.

On the contrary, contacts that are in the producing area, especially in Chaco province, state that low prices and erratic weather in the past few seasons will discourage medium sized producers (50-500 hectares) to grow cotton. The latter are the ones to define the total acreage as most small producers do not have many alternatives and large producers are not that many. Medium producers are currently very enthusiastic about sunflower production, which with their technology and current prices, get better returns than with cotton (and with half the investment). Wheat followed by soybeans is also expected to cover good acreage this winter. Some contacts indicate that the sowing of wheat and sunflower is practically assured because this current autumn has been quite wet and soil moisture is very good (not as last year).

Large cotton producers, which are primarily located in southwestern Chaco and east Santiago del Estero are utilizing advanced technology with very good results. The main change is the plantation in narrow furrows. This, together with Round Up Ready (RR) seed and strict management is yielding about 4 tons of raw cotton with ginning ratios of 25 percent. About 12,000 hectares were sown with this technology in MY2004 and it is expected to gain popularity, as more machinery and equipment is adapted for this type of production.

Harvested area for MY2005 is forecast at 360,000 hectares, 10,000 hectares less than planted area. Practically every year there are several thousand hectares lost on account of weather problems. In MY2004, some hectares were lost because of a heavy rainfall in early December 2004, which ended in the flooding of low lands. After that, a dry period in some areas (in northern Chaco and Formosa) increased losses.

With such small planted acreage, the percentage of handpicked cotton has increased significantly. A few years ago, when planted area was twice as much, cotton pickers represented over 80 percent. Nowadays, hand picked cotton, associated primarily to small and medium producers, accounts for about 70 percent. This situation has complicated the quality of the final product on account of contamination with plastic.

The boll weevil in Argentina appeared a few years ago, but its infestation has yet not been widespread as it is well located and isolated. It is found in a few areas in Formosa, Corrientes and Chaco. The private sector continues to fund an eradication campaign. A few years ago it was the producer who contributed to the fund, but this changed and spinners are the ones to pay almost US\$7 per ton of purchased fiber. The strategy is to work together with the Paraguayan Government to control the boll weevil in Neembucu, the department neighboring Formosa province in Argentina.

Cotton in Argentina was one of the first GMO crops to be authorized by the government to be sown extensively. Bt cotton was approved in 1998 and Round Up Ready in 2001. The approval of a new variety stacking both genes is expected in the short term. Most varieties utilize primarily local genetic material and some imported from the United States. Contacts calculate that there are about 100-150,000 hectares of cotton sown with GMO seed. Only 30-40,000 hectares is planted with official seed, and the balance is "brown bag" (black market) seed. Of the official, about half is Bt and the other RR. Large producers, and especially those utilizing narrow furrows, use this type of seed. GMO seed use is expected to continue to grow in the future as it helps to stabilize production.

Consumption

The domestic demand for cotton in MY2005 is projected at 135,000 tons, higher than the previous year as result of continued investment in the local textile industry. After the devaluation, the high price of imported products helped recover sales of local products. Based on private sources, the used capacity jumped from 30 percent in early 2003 to over 85 percent in 2004. Most players in the industry believe that local demand for cotton will continue to grow in the next few years, despite larger imports from Brazil and Asian countries. This is as a result of purchasing power recovery given by salary increases, and consumers' possibility of buying with credit. Domestic prices of clothes and garments increased in the past few months, primarily due to a strong demand and higher production costs.

In CY2004, Argentine production of artificial fibers and yarn totaled 75,000 metric tons. This was a 13 percent higher than the previous year. Of the total, polyester yarn accounted for 45 percent, followed by polyester fiber with 25 percent and nylon with 20 percent.

Trade

Argentina has lost its importance in the world cotton market primarily due to the drop in production, and the increase in domestic consumption leave very small surplus volumes for exports. The average exports of the period 1994-1998 were 240,000 tons. Exports during MY2003-05 will average 20,000 tons each year. This situation could revert quickly if world cotton prices would regain much of what they have lost in the past several years. Argentina has the ability and the infrastructure to once again become an important player in world trade.

The following table indicates tariffs for 2005. Exporters benefit from export rebates, which were installed in the 1990s to give back part of the taxes, incurred during the different production stages prior to the shipment. Export taxes were re-installed in early 2002 to increase the government's budget, focusing on social assistance. Despite the strong claim on part of producers and cotton producing provincial governments, they are not expected to be reduced in the short term.

	Mercosur	Non-Mercosur
Import Duty	0%	6.0%
Export Rebate	2.7%	2.7%
Export Tax	5.0%	5.0%

For more information on trade, please read *SECTION I*.

Argentina exports small volumes of textile products. There are roughly 130 cotton gins in Argentina, more than 45 spinners, of which half of them are integrated with weaving and knitting mills.